

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2011-47-WS – ORDER NO. 2011-\_\_  
OCTOBER \_\_, 2011

IN RE: )  
Application of Carolina Water Service, )  
Inc., for Approval of an Increase in Its )  
Rates for Water and Sewer Services )  
Provided to All of Its Service Areas in )  
South Carolina )

**ORDER RULING ON APPLICATION  
FOR INCREASE IN RATES**

**I. INTRODUCTION**

This matter is before the Public Service Commission of South Carolina (the “Commission”) on the Application of Carolina Water Service, Inc., (“CWS” or “the Company”) filed on April 15, 2011, seeking approval of a new schedule of rates and charges for water and sewer service that CWS provides to its customers within its authorized service areas in South Carolina. The Application was filed pursuant to S.C. Code Ann. Section 58-5-240 and 26 S.C. Code Ann. Regs. 103-712.4.A and 103.512.4.A.

CWS’s South Carolina operations are classified by the National Association of Regulatory Utility Commissioners (“NARUC”) as a Class A water and wastewater utility. The Commission approved service area for CWS includes portions of Aiken, Beaufort, Georgetown, Lexington, Orangeburg, Richland, Sumter, Williamsburg, and York counties.

By letter dated April 26, 2011, the Commission’s Docketing Department instructed CWS to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by CWS’s Application. The Notice of Filing described the nature of the Application and

advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings as a party of record. In the letter of April 26, 2011, the Commission also instructed CWS to notify directly, by U.S. Mail, each customer affected by the Application by mailing each customer a copy of the Notice of Filing. CWS filed Affidavits of Publication demonstrating that the Notice of Filing had been duly published and provided a letter certifying that it had complied with the instructions of the Commission's Docket Department and mailed a copy of the Notice of Filing to all customers.<sup>1</sup>

In response to the Notice of Filing, Petitions to Intervene were filed on behalf of the Forty Love Point Homeowners' Association ("HOA") and Midlands Utility, Incorporated ("Midlands"). A Petition to Intervene dated May 26, 2011, by Mr. Trent Muldrow, a customer of CWS, was forwarded by counsel for CWS to the Commission after the deadline.<sup>2</sup> Pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2010), the South Carolina Office of Regulatory Staff ("ORS") is a party of record.

In addition to the scheduled hearing during normal Commission hours, the Commission held three public night hearings pursuant to Order Nos. 2011-387, 2011-417, 2011-432, and 2011-532.<sup>3</sup> Under these Orders, Public Hearings were set and noticed by the Commission, and the Company provided affidavits certifying that it had provided notice to its customers via U.S. Mail of the date, time and location of the local public hearings. On July 13, 2011, the Commission held a night hearing in Lexington, South Carolina. A total of twenty-one (21) public

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<sup>1</sup> By directive dated June 24, 2011, the Hearing Officer recommended the Commission accept the late filed affidavits.

<sup>2</sup> Mr. Muldrow never filed a Petition to Intervene with the Commission.

<sup>3</sup> The purpose of the night hearings was to provide a forum, at a convenient time and location, for customers of CWS to present their comments regarding the service and rates of CWS.

witnesses testified at the hearing. On August 4, 2011, the Commission held a night hearing in Lake Wylie, South Carolina. A total of twenty-three (23) public witnesses testified at the hearing. On September 7, 2011 beginning at 6 p.m. eastern, the Commission held a night hearing at its offices located at Synergy Business Park, 101 Executive Center Drive – Saluda Building, Columbia, South Carolina. A total of eleven (11) public witnesses testified at the September 7<sup>th</sup> night hearing.

On September 7, 2011 and September 8, 2011, the public hearing relative to the matters asserted in CWS's Application was held in the Commission's hearing room located at Synergy Business Park, 101 Executive Center Drive – Saluda Building, Columbia, South Carolina. The Commission, with Chairman Howard presiding, heard the matter of CWS's Application.

At the outset of the hearing held September 7, 2011, the Commission heard testimony from public witnesses. A total of eight (8) public witnesses testified. The public hearing reconvened for closing arguments on September 19, 2011 and concluded.

During the proceedings, CWS was represented by Charles L.A. Terreni, Esquire and Scott Elliott, Esquire. The HOA was represented by Laura P. Valtorta, Esquire. Midlands was represented by Charles Cook, Esquire. ORS was represented by Nanette S. Edwards, Esquire and Jeffrey M. Nelson, Esquire.

At the hearings held September 7 and September 8, CWS presented the testimony of Pauline M. Ahern (Principal of AUS Consultants), Lisa Sparrow (President and Chief Executive Officer of Utilities, Inc.)<sup>4</sup>, Steven M. Lubertozzi (Executive Director of Regulatory Accounting and Affairs at Utilities, Inc.), Kirsten Weeks (Manager of Regulatory Accounting at Utilities,

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<sup>4</sup> CWS is a subsidiary of Utilities, Inc.

Inc.), Patrick C. Flynn (Regional Director at Utilities, Inc.), Bob Gilroy (Regional Manager for CWS and Utilities, Inc.), and Karen Sasic (Director of Customer Care at Utilities, Inc.). Additionally, the Company presented Mac Mitchell (Regional Manager for CWS and Utilities, Inc.)

The HOA presented the testimony of Kim Nowell, Frank Rutkowski, and Nancy Williamson concerning service and quality problems experienced by Forty Love homeowners. Midlands presented the testimony of Keith G. Parnell in support of a Settlement Agreement reached between CWS and Midlands. The Settlement Agreement was submitted to the Commission at the start of the hearing on September 7, 2011.

The ORS prefiled direct and surrebuttal testimonies of Dr. Douglas H. Carlisle Jr. (Economist), Sharon G. Scott (Senior Manager for Rate Cases), Dawn M. Hipp (Director of Telecommunications, Transportation, Water and Waste Water Departments), and Willie J. Morgan, P.E. (Program Manager of Water and Waste Water Department) were stipulated into the record on September 8, 2011 without objection. Dr. Carlisle's testimony provides his opinion concerning a fair rate of return on equity of CWS. Sharon G. Scott direct and surrebuttal testimony describes ORS's examinations of the application and CWS's books and records as well as the subsequent accounting and pro forma adjustments recommended by ORS. Mr. Morgan's direct and surrebuttal testimony focused on CWS's compliance with Commission rules and regulations, ORS's business audit of CWS's water and wastewater systems, test-year and proposed revenue, and performance bond requirements. Ms. Hipp's direct and surrebuttal testimony supported ORS's position on the need for a water audit, the design flaws associated with Customer Care & Billing ("CC&B") and the resulting billing problems for customers

served by purchased water/sewer systems, and the recommendation to alter the “pro-rata” language contained in the Company’s tariff.

In considering the Application of CWS, the Commission must ascertain and fix just and reasonable rates, standards, classifications, regulations, practices, and measurements of service to be furnished. Thus, the Commission must give due consideration to the Company’s total revenue requirements and review the operating revenues and operating expenses of CWS to establish adequate and reasonable levels of revenues and expenses. The Commission will consider a fair rate of return for CWS based on the record and any increase must be just and reasonable and free of undue discrimination.

The Commission appointed B. Randall Dong, Esquire, as hearing officer in Order No. 2011-346 to dispose of procedural and evidentiary matters. ORS filed a Motion to Admit Documentary Evidence on August 30, 2011, seeking to admit the transcript of the hearing in Docket No. 2010-146-WS. After hearing arguments on the Motion, the Commission ruled it would take judicial notice of Docket No. 2010-146-WS, its pleadings and its orders.

## **II. FINDINGS OF FACT**

1. CWS is a water and sewer utility providing water and sewer service in its assigned service areas within South Carolina; its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. Section 58-5-10, *et. seq.* (1976), as amended.

2. The appropriate test year period for this proceeding, selected by the Company, is October 1, 2009 through September 30, 2010.

3. The Commission will use rate of return on rate base as a guide in determining the lawfulness of the Company's rates and in fixing just and reasonable rates.

4. The determination of return on rate base requires three components. These three components are capital structure, cost of equity (or return on equity), and the cost of debt.

5. In the return on rate base determination, it is appropriate to use the capital structure and cost of debt of CWS's parent company, Utilities, Inc., on September 30, 2010, of 50.11% long-term debt and 49.89% equity; and the cost of debt of Utilities, Inc. at September 30, 2010, is 6.58%.<sup>5</sup>

6. A fair return on equity for CWS is 9.02%.

7. Using the revenues and adjustments adopted herein, the capital structure of Utilities, Inc., of 50.11% long-term debt and 49.89% equity, the cost of debt of Utilities, Inc. of 6.58%, and a return on equity of 9.02%, produces a rate of return on rate base of 7.80%.

8. CWS is seeking an increase in its rates and charges for water and sewer service; at CWS's proposed rates, the additional total operating revenues would be \$2,968,522.

9. The appropriate operating revenues for CWS for the test year under present rates and after accounting and pro forma adjustments are \$7,951,765.

10. The appropriate operating expenses for CWS for the test year under present rates and after accounting and pro forma adjustments and adjustments for known and measurable out-of-test-year occurrences are \$6,433,719.

11. A customer growth adjustment using the method of calculating customer growth as proposed by ORS is included in computing the income requirement of CWS.

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<sup>5</sup> In its Application, CWS provides a cost of debt of 6.60%. Scott Direct and Surrebuttal Exhibits SGS-8 (T. Vol. 5, Hearing Exhibits 45 and 46) show long-term debt is 6.58%.

12. The income requirement for CWS, using the return on rate base of 7.80% found appropriate in this Order and the adjusted rate base of \$23,611,206, is \$1,840,758.

13. In order for CWS to have the opportunity to earn its income requirement of \$1,840,758, CWS must be allowed additional revenues totaling \$501,133.

14. The appropriate operating margin for CWS based upon the herein approved adjustments and rates is 12.57%.

15. During the test year the Company failed to render bills on a timely and accurate basis and in some cases disconnected customers for nonpayment when the customer did not receive a bill; furthermore, during the test year the Company's customer service and billing was poor and requires improvement.

16. The Company commits to conduct an American Water Works Association (AWWA) compliant water audit to address unaccounted for water.

17. The current tariff language regarding the "pro-rata" billing for purchased water and sewer systems continues to result in delayed and inaccurate billing of CWS customers.

18. Non-revenue water is lost from CWS's respective water systems and charged to the ratepayers from flushing events.

19. A Settlement Agreement was submitted by Midlands and CWS to the Commission on September 7, 2011; the agreement provides that Midlands would be limited to the same percentage increase applied to other customers.

### **III. EVIDENCE AND CONCLUSIONS**

#### **1. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1**

The evidence supporting this finding concerning the Company's business and legal status is contained in the Application filed by CWS, testimony, and in prior Commission Orders in the docket files of the Commission, of which the Commission takes judicial notice. This finding of fact is informational, procedural and jurisdictional in nature, and the matters which it involves are not contested by any party.

## 2. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 2

The evidence supporting this finding that the appropriate test year period for this proceeding is October 1, 2009 through September 30, 2010 is contained in the Application filed by CWS and in the testimony and exhibits of the Company and ORS. No party contested the use of the test year proposed by CWS in its Application. The Commission concludes that the test year ending September 30, 2010 is appropriate.

## 3. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

The Company in its Application requests rate base treatment on the basis that it has made substantial plant investment and is entitled to have the reasonableness of its proposed rates determined in accordance with rate of return on rate base methodology. (Application, p. 5, ¶ 12) No party contested the Company's request for rate base treatment. Due to the Company's large rate base and the need to earn a fair and reasonable return on its investment, the Commission finds that return on rate base methodology is appropriate.

## 4. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

There are three components to determine the return on rate base. The three components are capital structure, cost of equity (or return on equity), and the cost of debt. The rate of return is the amount of money earned by a public utility, over and above operating costs, expressed as a percentage of the rate base. In other words, the rate of return includes interest on long-term debt,



dividends on preferred stock and earnings on common stock (including surplus or retained earnings). Phillips. *The Regulation of Public Utilities* at 376.

#### 5. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

Both CWS Witness Pauline M. Ahern and ORS Witness Dr. Douglas H. Carlisle, Jr. used the capital structure of Utilities, Inc., the parent company of CWS. The capital structure for Utilities, Inc. at September 30, 2010, is 50.11% long-term debt and 49.89% equity. In its Application, Utilities, Inc., claimed a cost of debt on September 30, 2010 of 6.60%. ORS Witness Scott used 6.58% for the cost of debt of Utilities, Inc., based on ORS's examination.

#### 6. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

Evidence concerning a fair return on equity (or cost of equity) was provided by CWS Witness Ahern and ORS Witness Dr. Carlisle.

##### **(1) Position of CWS**

CWS presented Pauline M. Ahern, Principal of AUS Consultants, as its cost of capital witness. She used the results from the application of the Discounted Cash Flow Model (DCF), the Risk Premium Model (RPM), and the Capital Asset Pricing Model (CAP-M) and Empirical Capital Asset Pricing Model (ECAP-M). She advocates that no single cost of equity model should be relied upon; instead, consistent with the Efficient Market Hypothesis (EMH) and academic literature, in order to simulate investor behavior and arrive at the recommended cost of equity rate requires the application of multiple cost of common equity models.

Because the Company's stock is not publicly traded, a market-based common equity cost rate cannot be determined directly for CWS. Thus, Ahern used proxy groups. One group consists of nine (9) water companies and the other consists of a group of domestic, non-price regulated

companies. Ahern selected the proxy group of nine (9) water companies based on the following seven (7) criteria:

1) they are included in the Water Company Group of AUS Utility Reports (July 2011); 2) they have Value Line, Reuters, Zacks or Yahoo! Finance, consensus five-year earnings per share (EPS) growth rate projections; 3) they have a positive Value Line five-year dividends per share (DPS) growth rate projection; 4) they have a Value Line adjusted beta; 5) they have not cut or omitted their common dividends during the five years ending 2010 or through the time of the preparation of this testimony; 6) they have 60% or greater of 2010 total operating income derived from and 60% or greater of 2010 total assets devoted to regulated water operations; and 7) at the time of the preparation of this testimony, they had not publicly announced that they were involved in any major merger or acquisition activity.

The second proxy group consists of thirty-nine (39) non-price regulated companies chosen based upon ranges of unadjusted beta and standard error of the regression.

For the proxy group of nine (9) water companies, Ahern's results using the DCF, RPM, and CAP-M/ECAP-M are 9.54%, 10.33%, and 10.42% respectively. She arrived at 10.42% by using an average of CAP-M of 10.13% and ECAP-M of 10.71%. She provides cost rates based upon her application of the DCF, RPM, and CAP-M/ECAP-M models to the non-utility group of 12.05%, 11.38%, and 10.75%, respectively. For the non-price regulated companies, she produced a cost of common equity of 13.45%.

As part of her recommended range, Ahern applied a financial risk adjustment because CWS has somewhat lower financial risk than the companies in the proxy group. She also, however, applied a business risk adjustment on the basis of the Company's smaller size relative to the group, as measured by either book capitalization or the estimated market capitalization of common equity for CWS. She argues that the loss of revenue from a few larger customers would have a greater effect on a small company than on a much larger company with a larger, more diverse, customer base. (T. Vol. 3, 483, ll. 12-22)

Ahern's recommended range of common equity cost rate is 10.80% - 11.40% yielding a rate of return of 8.70% - 9.00%. She then subtracted a financial risk adjustment of negative eight basis points (.08%) and added a business risk adjustment of fifty basis points (.50). After adjustments, Ahern's range is 10.82% -11.42%, rounded to 10.80% - 11.40%.

**(2) Position of ORS**

Dr. Douglas H. Carlisle, Jr., Economist for ORS, presented testimony regarding the cost of capital. He applied three well-known and generally accepted methods for determining a recommended return on equity, DCF, CAP-M, and the Comparable Earnings Model (CEM).

Because neither Utilities, Inc. nor CWS is publicly traded, Dr. Carlisle applied the DCF to a group of nine (9) water and wastewater companies reported in Value Line for comparison purposes. He used the companies listed in the Water Utility Industry of Value Line's on-line Plus Edition. Dr. Carlisle eliminated the two (2) companies whose businesses focus on water purification or electricity and Pennichuck Corporation, because it is in the process of merging with the water system of the City of Nashua, New Hampshire. These adjustments resulted in a proxy group of nine (9) companies which are also the same nine (9) companies used by Witness Ahern. Dr. Carlisle's DCF analysis produced a cost of equity of 9.02%. Dr. Carlisle's CAP-M analysis produced expected returns-on-equity of 9.48%. For the CEM, he chose all companies carried by Value Line that were not in a financial sector, that had beta's of no lower than the lowest Proxy Group company and no higher than the highest Proxy Group company and that had not exceeded the Proxy Group's range for the past five (5) years. Additionally, he chose only those companies that had data for indicators of growth and dividend yield and estimates. These criteria produced a set of 100 companies. Dr. Carlisle's CEM produced expected returns-on-equity of about 10.03%. However, given the dynamics of historical compared to projected

growth in book value and the probability that some of this growth came at the expense of growth in dividends, Dr. Carlisle recommended that the CEM level be set lower. A lower CEM is further supported by the fact that CWS enjoys prices/rates set by regulation and the status of a monopoly provider of an essential product, with virtually no substitutes and certain minimum demand.

Dr. Carlisle did not recommend any special adjustments to CWS's return noting that if an analysis uses generally comparable firms, there should be no need for any additional adjustment, especially adjustments to the return on equity to recognize the level of debt. Investors know of companies' levels of indebtedness and presumably price that into their return requirements. Unless there are extraordinary circumstances such as CWS having had very high or extremely low costs of debt that were somehow not captured by proxy/comparable companies, the capital structure itself is the adjustment because it, with embedded costs, affects the rate of return.

Based on his analyses Dr. Carlisle's rate of return on equity range is 9.02% to 10.03%.

**(3) Decision of the Commission**

Due to the many service issues experienced by the customers during the test year and the failure of the Company to appropriately bill its customers during the test year, which in turn caused the Company to fail to earn its authorized return as discussed more fully *infra*, *Findings of Fact 10 and 15*, we find the appropriate return on equity to be 9.02%. While the evidence in the record regarding the continued problems associated with the Company's billing would support a lower return on equity, we find that the low end of Dr. Carlisle's range provides a reasonable return.

We reject Witness Ahern's requested range of common equity cost rate of 10.80% - 11.40%. We do not find it appropriate to add a financial risk adjustment of negative eight basis points (.08%) to account for a lower financial risk or a positive business risk adjustment of fifty basis points (.50) to account for size. We find persuasive Dr. Carlisle's testimony that adjustments to the return on equity to recognize the level of debt are reflected in the capital structure itself. We find that CWS, being a regulated utility, should have a risk similar to other regulated water and wastewater companies regardless of size. We agree with Dr. Carlisle that water companies enjoy a special place among public utilities as they sell a commodity that people consume, which is essential to life and has virtually no substitute. Additionally, we find no evidence in the record that CWS because of its current size is reliant on a few large customers such that if those customers were to no longer exist that CWS or its parent would be unable to attract investment. For these reasons, we decline to adopt the arbitrary fifty point (.50) basis business risk adjustment advocated by Witness Ahern.<sup>6</sup> (T. Vol. 3, 575, ll. 7-15)

Company Witness Ahern takes issue with Dr. Carlisle's use of historical measures arguing that it is appropriate to rely exclusively upon security analysts' forecasted growth rates in EPS. Dr. Carlisle refutes this position on the basis that (1) any prediction about future human behavior is likely to be imprecise and (2) analysts tend to be optimistic and overestimate earnings. Rather than relying exclusively upon security analysts' forecasted growth rates in EPS, Dr. Carlisle uses more than one source of estimates noting that each source, in turn, often has more than one analyst performing estimates for each company. He contends that there is

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<sup>6</sup> CWS has previously requested a fifty basis point adjustment due to CWS's small size which the Commission has consistently declined to adopt. Order No. 2001-887 at 19.

evidence that, taken in conjunction with other data,<sup>7</sup> analysts' estimates can be useful and provide better accuracy than historical trends alone but their value becomes quite small in the long-term and all three models have a long-term basis. He concludes that so much historical data would not be offered if investors had no interest in it and that it is equally doubtful that investors, having looked at the historical data, would ignore its significance.

Witness Ahern takes issue with Dr. Carlisle's CAP-M analysis because he utilized geometric mean historic total market returns in developing a market equity risk premium and because he did not include an ECAP-M analysis. She also contends that Dr. Carlisle's CEM analysis used selection criteria that did not include measures of comparable total risk and that he failed to include a financial risk adjustment or size adjustment.

Dr. Carlisle asserts that the geometric mean fairly reflects long-term growth of companies while the simple annual average does not and is especially misleading in the current economic and financial market. Dr. Carlisle points to the evidence referenced by Dr. Damodaran, in his recent 2011 publication, which demonstrates that with long-term returns, such as contained in the Ibbotson book, the geometric mean, or compound annual growth rate, produces a much more accurate result.<sup>8</sup> With regard to ECAP-M, Dr. Carlisle provides several reasons for not utilizing an ECAP-M analysis, among them, that there is no empirical study reviewed by *independent* academic authorities that supports the ECAP-M. With regard to his CEM analysis and in response to Witness Ahern's contention that his selection criteria do not result in companies

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<sup>7</sup> Roger K. Loh and G. Mujtaba Mian, "Do accurate earnings forecasts facilitate superior investment recommendations?" Journal of Financial Economics, Volume 80, Issue 2, May 2006, Pages 455-483.

<sup>8</sup> Aswath Damodaran, Equity Risk Premiums (ERP): Determinants, Estimation and Implications – The 2011 Edition, pp. 23-24 accessed at: [www.stern.nyu.edu/~adamodar/pdfiles/papers/ERP2011.pdf](http://www.stern.nyu.edu/~adamodar/pdfiles/papers/ERP2011.pdf).

comparable in total risk to the proxy group of water companies, Dr. Carlisle offers that if one accepts the premise that beta measures risk, then it will select non-regulated companies of comparable risk to the regulated ones with the same betas. On the other hand, Ms Ahern's very selection criteria for her comparable non-regulated group is based on a misinterpretation of CAP-M and essentially double-counts certain risks using complex statistical means. As to the adjustments for financial risk and size, Dr. Carlisle determined that no special adjustments are required.

We find Dr. Carlisle's analysis the most convincing of the opinions offered; and given the evidence in the record of the Company's failure to timely and correctly bill customers during the test year, we find the appropriate return on equity to be 9.02%.

#### 7. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

The return on rate base is determined using long-term debt, equity, cost of debt and return on equity. Using the capital structure of Utilities, Inc. on September 30, 2010, of 50.11% long-term debt and 49.89% equity, and the cost of debt of Utilities, Inc. on September 30, 2010, of 6.58%, and a return on equity of 9.02%, the appropriate rate of return on rate base for CWS is 7.80%. The following table indicates the capital structure of the Company, the cost of debt, the cost of equity as approved in this Order, and the resulting rate of return on rate base:

TABLE A

	Ratio	Embedded Cost	Overall Cost
Long term Debt	50.11%	6.58%	3.30%
Common Equity	49.89%	9.02%	4.50%
Total	100%		7.80%

8. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The evidence for the finding of fact concerning the amount of the requested rate increase is contained in the application filed by CWS and in the testimony and exhibits of CWS Witness Kirsten Weeks. Based on the proposed rates in its Application, CWS seeks an additional \$2,968,522 in combined water and sewer revenues (net of Uncollectibles), equating to an eighty (80%) increase in water rates and a fourteen (14%) increase in sewer rates. At hearing, CWS Witness Lisa Sparrow testified that the Company through adjustments made in its rebuttal testimony was no longer seeking its initial rate increase. On a combined operation basis, the Company adjusted its request to approximately a twenty (20%) increase. (T. Vol. 3, 614, ll. 16-19)

9. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

The Application of CWS shows per book test year total operating revenues of \$7,088,034. (Application, Exhibit B, Page 2, Schedule B, p.1 of 4) This amount includes Uncollectible Accounts of (\$421,242) and Miscellaneous Revenues of \$164,956. Evidence concerning adjustments to Service Revenues, Uncollectible Accounts and Miscellaneous Revenues was provided by CWS Witness Kirsten Weeks and ORS Witnesses Sharon G. Scott and ORS Witness Willie J. Morgan, P.E.

**(1) Position of CWS**

CWS Witness Weeks testified at hearing that CWS is in agreement with ORS's Adjustment 1 to Service Revenues of \$415,833. (T. Vol. 5, 889, l. 10) Witness Weeks opposed ORS's Adjustment 2 to Miscellaneous Revenues on the grounds that the \$22,681 ORS includes as Miscellaneous Revenue is a one-time payment and is non-utility income from HomeServe. (T.



Vol. 5, 875, ll. 4-25) She argues that the payment “doesn't have anything to do with the utility operations of CWS.” (T. Vol. 5, 906, ll. 9-19)

Other than the \$22,681 related to HomeServe, the Company had no issues with ORS Adjustment 2 of \$94,397 given ORS's adjustment to remove \$71,713 from Contribution In Aid of Construction (CIAC). (T. Vol. 5, 874, ll.20-25)

Regarding ORS Adjustment 37, CWS proposes non-recurring charges for disconnection, meter installation, tampering, and pumping in its Application and proposes to charge the fee at “actual cost.” (Application, Exhibit A) CWS Witness Flynn in his rebuttal testimony (T. Vol. 5, 970, ll. 6-18; 971, ll. 1-19; 972, ll. 7-22; 973, 1-2) recommends modification to the non-recurring charges to add pricing and responsibilities to the customers. However, at hearing, CWS Witness Weeks testified that if the Commission permits the Company to assess the non-recurring charges at “actual cost,” then she agreed that the revenue should be included in Miscellaneous Revenue. If, on the other hand, the Commission does not permit the Company to assess the non-recurring charges, then the revenue requirement should be adjusted accordingly. (T. Vol. 5, 878, ll. 3-20; 879, ll. 15-18)

CWS Witness Weeks also contests the late payment revenue of \$83,815.39 included in Adjustment 37. She included a \$0 increase in late payment charges as she believes that uncollectibles are decreasing and will continue to decrease. (T. Vol. 5, 877, ll. 1-19),

With regard to Adjustment 3 to Uncollectible Accounts and Adjustment 38, CWS Witness Weeks testified at hearing that she believed CWS and ORS were close on the adjustment to Uncollectible Accounts. She used 1.1% in her rebuttal testimony to calculate Uncollectible Accounts. (T. Vol. 5, 876, ll. 14-20)

**(2) Position of ORS**

Utilities Inc. jointly markets a home warranty service with HomeServe. (T. Vol. 2, Exhibit 10, p. 8-12) Utilities, Inc. provided its list of CWS customer names and addresses to HomeServe for compensation. Utilities, Inc. may receive a commission when HomeServe obtains a revised CWS customer list from Utilities, Inc. and also when the CWS customer purchases the home warranty product from HomeServe. During the test year, HomeServe paid Utilities, Inc. for the names and addresses of CWS customers; as allocated to CWS, the amount of \$22,681 should be included in Miscellaneous Revenues.

ORS Witness Willie J. Morgan, P.E. recommends that the Commission not adopt non-recurring charges proposed by CWS at “actual cost.” The non-recurring charges and the specific events that determine when a non-recurring charge would be applicable to the customer should be transparent. ORS supports a non-recurring charge rate schedule in which the charges are clearly defined and do not vary. ORS argues that the proposed rates in CWS Witness Flynn’s rebuttal testimony have not been noticed to the customers and recommends the Commission not adopt any non-recurring charge where the customer has not been given proper notice. If the non-recurring charges are not approved by the Commission, then there should be a corresponding adjustment to revenue.

In surrebuttal testimony, ORS Witness Scott agreed that \$71,713 should be removed from the CIAC account balance and should be included in Miscellaneous Revenue only.

ORS included \$83,815.39 in late payment revenue for late payment charges or forfeited discounts.

Regarding Adjustment 3 to Uncollectible Accounts and Adjustment 38, ORS used the actual uncollectible amount for 2009 of (\$79,035) to compute the uncollectible rate. This rate was less than 1.1% (more precisely 1.018472%).

ORS imputed a significant amount of test year revenue based on customer billing information provided in the CWS application, supplemental customer data provided by CWS, and ORS verification of active customers. Additionally, during the cross-examination of Mr. Bob Gilroy, ORS learned that additional sewer service revenues from Richland County were not captured by either ORS or CWS. The annual amount to be imputed related to the testimony from Mr. Gilroy is \$16,938. During the hearing, CWS witness Bob Gilroy acknowledged Richland County is a customer of CWS. Richland County collects wastewater from several homes and sends this wastewater to CWS for treatment. Richland County pays CWS \$1,411.50 per month for this treatment. (T. Vol. 5, 1234, ll. 14-23)

**(3) Decision of the Commission**

We find that the Adjustment of \$22,681 to Miscellaneous Revenues is appropriate as the revenue was received during the test year and in exchange for a list of CWS customer name and addresses. Company Witness Weeks responded under cross-examination that she did not know whether further payments would be received if a revised CWS customer list was provided to HomeServe. (T. Vol. 5, 907, ll.6-25; 908, ll. 1-12)

We do not approve the proposed non-recurring charges for disconnection, meter installation, tampering, and pumping which were noticed at “actual cost” rather than at a specified rate transparent to the customer.<sup>9</sup> We also decline to adopt the non-recurring charges

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<sup>9</sup> The Company noticed and ORS did not object to the non-recurring charge for water meter of \$100.00 and the sewer notification fee of \$15.00. These non-recurring charges are approved and are set forth in Appendix A.

proposed by CWS Witness Flynn in his rebuttal testimony as they were not noticed to customers. Accordingly, we find that as the proposed non-recurring charges are not approved, a corresponding adjustment to revenue of \$197,700 is appropriate.

We adopt ORS's Adjustments for late payment revenue and uncollectible accounts. ORS's adjustments are based on 2009 actual data for uncollectibles and we note that it is very close to that proposed by CWS Witness Weeks. In calculating the revenue requirement, we adopt 1.018472%.

CWS and ORS are in agreement with regard to the removal of \$71,713 to the CIAC account balance and the resulting updates to Adjustments 16, 32, and 33 set forth in Scott Surrebuttal Exhibit SGS-4, and as such, these adjustments are adopted by the Commission.

With regard to service revenue, CWS Witness Weeks accepted the service revenue adjustments proposed by ORS. (T. Vol. 5, 889, l. 10) Including the additional sewer service revenue discussed at hearing of \$16,938 we find, after accounting and pro forma adjustments adopted herein, that water service revenues are \$2,433,619 and sewer service revenues are \$5,343,473.

We find that the appropriate operating revenues for CWS for the test year under present rates and after accounting and pro forma adjustments are \$7,951,765.

TABLE B

ORS					
Operating Revenues	Surrebuttal	Change	As Adj.	Increase	Total
Service Revenues - Water	2,433,619	-	2,433,619	236,747	2,670,366
Service Revenues - Sewer	5,326,535	16,938	5,343,473	221,711	5,565,184
Miscellaneous Revenues	259,354	(5,646)	253,708	47,517	301,225
Uncollectible Accounts	(79,035)	-	(79,035)	(4,842)	(83,877)
	<u>7,940,473</u>	<u>11,292</u>	<u>7,951,765</u>	<u>501,133</u>	<u>8,452,898</u>

## 10. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

The parties offered certain adjustments affecting operating expenses for the test year. CWS Witnesses Kirsten Weeks, Steve Lubertozzi, and Patrick Flynn and ORS Witnesses Sharon G. Scott, Willie J. Morgan, P.E., and Dawn M. Hipp offered testimony and exhibits detailing adjustments.

CWS Witness Weeks testified that CWS is in agreement with ORS Adjustments 1, 5, 6, 13, 14, 20, 22, 24, 26, 28, 32, 34, and 35. Additionally, both CWS and ORS agree that \$2,197 of “non-allowable” expenses should be included in operating expenses. (Scott Surrebuttal Exhibit SGS-4; T. Vol.5, Hearing Exhibit 46, p. 4-10)

### **(A) Adjustments 4 and 9 (Salaries & Wages):**

#### **(1) Position of CWS**

CWS Witness Weeks proposes an adjustment to salaries of \$23,627. After ORS completed its examination, CWS filled additional vacant positions prior to the hearing date, and CWS Witness Weeks asserts that these salaries are known and measurable. She also contends that ORS inadvertently left out certain offices in ORS’s salary calculations; however, at hearing she acknowledged that she was incorrect.

#### **(2) Position of ORS**

ORS proposes to annualize the operators’ salaries for the test year and proposes an adjustment of (\$13,918). ORS Witness Scott states in her surrebuttal testimony that ORS was able to analyze, verify, and sample salary information and complete the adjustment in time to meet the required pre-filed testimony filing deadlines in this proceeding and used wage rates and the number of employees as of June 2011. The cut-off date for inclusion of items for audit review and examination was July 27, 2011. (T. Vol. 5, 912, ll. 16-23)

ORS Witness Scott responded in surrebuttal testimony that ORS did not err in the salary calculation, but due to an error in the Company spreadsheet an incorrect allocation was used for the office employees in South Carolina. ORS Witness Scott applied the correct allocation factor of 63.91% and as a result updated Adjustments 8, 9, 12 and 17.

**(3) Decision of the Commission**

We decline to include unaudited salaries and wages. There must be a “cut-off” between the date of the completion of the audit or examination of the Company’s books and records and the hearing date. ORS included salaries and wages through June of 2011. (T. Vol. 5, 881, ll. 7-25) The cut-off deadline for inclusion of items as part of the audit and examination was July 27, 2011 (T. Vol. 5, 912, ll. 16-23) The hearing in this matter was held on September 7, 2011. CWS seeks to include the salaries of six positions that were filled between June of 2011 and the date of the filing of its rebuttal testimony, August 24, 2011. The Supreme Court has held that the Commission is not required to consider unaudited or speculative data. Porter v. South Carolina Public Service Commission, et al., 333 S.C. 12, 21-22, 507 S.E.2d 328, 337 (1998). The Commission is only required to consider known and measurable changes that occur after the test year in order to calculate figures that affect the company’s overall rate of return and customer rates. Id. at 21-22, 337. The Commission is not required to rely on *unaudited* data, however. The Court held that the Commission complied with the requirement of considering known and measurable changes when it considered the *audited* data from March to May 1995 and chose not to rely on and include *unaudited* data for June 1995 just prior to the hearing. Id. at 21-22, 337.

**(B) Adjustment 12 (Pension & Other Benefits):**

**(1) Position of CWS**

CWS Witness Weeks proposes to include the Company's contribution of 4% of its profits to employees as an expense. The amount CWS seeks to include for profit sharing is \$80,553 with \$46,753 allocated to water and \$33,800 allocated to wastewater (T. Vol. 5, 897, ll. 19-27; 898, ll. 1-4) The profit sharing program was introduced in 2010 and allows for a certain percentage of profits to be awarded to employees through their retirement plan at the end of the year. Profit sharing is discretionary and is awarded to each employee regardless of whether they contribute to a 401(k). For 2010, the profit sharing contribution was 4% and the contribution was made in early 2011 (T. Vol. 5, 915, ll. 8-12)

**(2) Position of ORS**

ORS does not propose to include the Company's contribution of 4% of its profits to employees as a profit sharing plan as an expense to the ratepayer.

**(3) Decision of the Commission**

The Commission agrees with ORS's adjustment to remove the Company's contribution of 4% to the profit sharing plan. The plan is discretionary and is not tied to the performance of individual employees, but rather the performance of the Company. (T. Vol. 5, 923, ll. 9-21) The Company could decide to award 2% in future years or 0%. The profit sharing plan payments to the employees' 401(k) plan should be the responsibility of the shareholders and not the ratepayers, and as such are removed from test year expenses.

**(C) Adjustment 7 (Transportation) and Adjustment 23 (Gross Plant in Service):**

**(1) Position of CWS**

CWS seeks an additional \$1,000 related to Transportation Expenses due to a new employee with a higher allocation to CWS. (T. Vol. 5, 899, ll. 17-21) CWS also seeks \$433,049 for vehicles included in rate base. (T.Vol.5, 901, ll. 10-14)

**(2) Position of ORS**

Regarding Adjustment 7, ORS does not propose to include the Transportation adjustment as no adjustments were made for new employees after the cut-off date and thus, the cost of the vehicle assigned to the new employee is not included. (T.Vol.5, 1267) ORS likewise does not propose any changes to the adjustment to remove vehicles from plant in service. ORS verified thirty-one (31) vehicles were allocated to CWS as part of its examination. (T. Vol. 5, 1267)

**(3) Decision of the Commission**

We adopt ORS's position on Adjustments 7 and 23. The Company did not contest these adjustments at hearing, and ORS Witness Scott's testimony indicates that ORS found the employee was not operating the Company vehicles and that ORS properly verified the correct number of vehicles allocated to CWS.

**(D) Adjustment 29 (Non-Allowable Plant):**

**(1) Position of CWS**

CWS contests ORS's adjustment of (\$508,123) for removal of non-allowable plant. CWS Witnesses Weeks and Flynn contend that the projects were prudent and beneficial. Witness Flynn argues that \$99,228 in expenditures associated with the engineering services should be included regardless of the timing of construction of the plant improvements themselves. (T. Vol. 5, 967)

**(2) Position of ORS**

Witness Morgan explained ORS's position regarding the removal of \$99,228 in costs associated with engineering services provided by Burgin Engineering and Sims Group. The invoices clearly show the costs associated with the work necessary for the design and permitting requirements of installing the digester tank, blowers, and ultra-violet disinfection treatment



system at the Whites Creek/Lincolnshire wastewater treatment plant. None of these improvements were completed or in service at the time of the ORS site visit of July 26, 2011. The remaining balance of the (\$508,123) is comprised of plant that is incomplete and not in service.

**(3) Decision of the Commission**

ORS's adjustment results from the removal of expenditures associated with plant that is not complete and in service. We find it appropriate to adopt ORS's adjustment.

**(E) Adjustments 15, 16, 30, and 33:**

**(1) Position of CWS**

Regarding Adjustment 15, CWS Witness Weeks seeks to include depreciation expense of \$1,002,569 as compared to ORS's calculation of \$963,581. These differences are due to non-allowable plant, capitalized wages, depreciation expense on vehicles, and Customer Care & Billing.

Regarding Adjustment 16 and 33, CWS Witness Weeks indicates that CWS and ORS differ on sewer CIAC.

Regarding Adjustment 30, CWS seeks accumulated depreciation of (\$8,423,973) as compared to ORS's (\$8,113,370) and due to differences in Customer, Care & Billing, non-allowable plant, and vehicle balances.

**(2) Position of ORS**

ORS Witness Scott proposed one change associated with capitalized time for updated salaries. She updated depreciation expense to reflect the change in capitalized wages but proposed no other changes to depreciation expense or accumulated depreciation for non-allowable plant, vehicles, or computers. She did agree to the removal of \$71,713 from CIAC and

made corresponding updates to Adjustments 16, 32, and 33. She did not propose any additional changes to Adjustment 30.

**(3) Decision of the Commission**

Consistent with our findings for Adjustments 7, 23, 27, and 29, we adopt ORS's proposed Adjustments 15, 16, 30 and 33.

**(F) Adjustment 27 (Customer Care and Billing System (CC&B)):**

**(1) Position of CWS**

CWS Witness Lubertozzi disagrees with ORS's adjustment of (\$397,643) to remove a portion of CC&B.

CC&B is a part of Project Phoenix. Project Phoenix began in 2006 as an effort to improve accounting, customer service, customer billing and financial and regulatory reporting areas. The total cost of Project Phoenix was approximately \$22 million and consisted of two components: JD Edwards Enterprise One ("JD Edwards") as the financial system including asset management and Oracle's Customer Care & Billing system or CC&B. CC&B was placed into service on June 2, 2008 at a total cost of \$7,126,679. Approximately \$521,719 or 7.32% of the total cost was assigned to CWS. CWS Witness Lubertozzi contends that with the modification to CWS's rates allowing it to recover part of its unaccounted for water, CWS will no longer be required to perform monthly manual calculations and manual inputs to generate a water distribution or wastewater collection customer invoice. (T. Vol. 5, 759-764; 780-782) He argues that CC&B is in service and is providing a benefit to all CWS customers.

CWS Witness Sasic contends that the number of Equivalent Residential Connections (ERC's) used by ORS Witness Hipp should not be based on the data supplied by CWS, and in any case, the billing problems did not affect 74.65% of CWS's customers.

**(2) Position of ORS**

During the test year, ORS filed a Petition for Rule to Show Cause. (Docket No. 2010-146-WS). The Petition was filed in May of 2010 and is currently pending before the Commission. ORS Witness Hipp in her direct testimony provides that ORS has been dealing with customer complaints concerning billing problems since June of 2008. ORS found through the complaint investigation process that (1) the billing issues are widespread; (2) the implementation of CC&B was difficult and training was deficient; (3) the method CWS uses to calculate the pro-rata water supply charge and wastewater treatment charges creates a delay in issuing customer bills; and (4) CWS has failed to implement global corrective actions to address customer billing issues. She states that the majority of customers did not receive timely and accurate bills during the test year and billing errors continue to occur. ORS removed 74.65% of the initial cost of CC&B to reflect the percent of water distribution and wastewater collection customers who have been affected by the billing deficiencies in CC&B. CC&B was poorly designed in that it does not accommodate the pro-rata billing used for water distribution and wastewater collection only customers. CWS knew as it was preparing to implement CC&B that pro-rata billing existed in South Carolina. During the design and implementation of CC&B, CWS should have taken steps to ensure its new billing system was able to issue all of its customer's timely and accurate bills. The result is the Company continues to have data integrity problems and this in turn has caused an under-recovery of revenue, an overstatement of uncollectible accounts, and the inability to determine an accurate water balance.

ORS Witness Hipp asserts that it is disingenuous for Mr. Lubertozzi to claim that CC&B operated properly during the test year when CWS customers did not receive timely or accurate bills. In some cases customers did not receive bills at all and were disconnected for nonpayment.

Furthermore, she notes that only *after* ORS filed a rule to show cause petition did CWS institute limited measures to track customer billing and attempt to improve some of its internal processes to increase timeliness. Instead of proactively correcting deficiencies, she contends that CWS allowed inefficient and error-riddled manual processes to continue to impact its water distribution and wastewater collection customers from 2008 until today. Because of its flawed design and implementation, CC&B has not been useful to customers during the test year and as such she proposes to remove 74.65%, (\$397,643), of the initial cost. (T. Vol.5, 1290-1291)

ORS Witness Hipp used the CWS response to data request 1.42 which identified customers by billing unit and its proposed rate schedule to calculate the portion of CC&B related to CWS water distribution/wastewater collection customers. ORS used the same customer billing data provided by CWS to calculate test year and proposed service revenue that CWS Witness Weeks agrees with but that CWS Witness Sasic contends are incorrect. (T. Vol.5, 1295-1296)

ORS Witness Hipp provides other examples of continued billing errors. She confirmed the billing error uncovered by a CWS customer. During the Lake Wylie night hearing, CWS customer Don Long testified that the Company overbilled customers starting in 2008, discovered the error in the fall of 2010, and then acted to cover up its billing error. Hipp Surrebuttal Exhibits DMH-1 and DMH-2 reflect that the billing description changed to “Water Supply Charge” reflecting the number of gallons and the rate per gallon. (T. Vol. 5, Hearing Exhibit 44).

As part of this rate case, another error was uncovered related to the refund of customer interest on deposits. The Company has failed to pay interest every two years on deposits held longer than the required two year period.

Another error involves the inaccurate billing of the base facilities charge which resulted in the overcharging of 274 customers in the Lake Wylie service area.

Additionally, ORS Witness Hipp notes that nine (9) premises were discovered by ORS as receiving service but not recorded in the CC&B system and not billed by CWS. These types of billing errors impact CWS revenue recovery. She testified that ORS selected a small sample of commercial customers from CWS's service territory; ORS conducted site inspections to verify that CWS was billing its commercial customers using the correct number of Single Family Equivalents ("SFEs"); and ORS determined that several customers were under-billed because CWS did not assign the correct number of SFEs to certain commercial businesses. (T. Vol. 5, 1296-1300)

She testified that ORS is concerned with the data integrity in CC&B. CWS indicated in its information responses to ORS that CC&B generated "vacancy" reports which were used by CWS customer service and field personnel to confirm occupancy. This approach relies heavily on the data integrity of CC&B which is only as accurate as the information entered. If CWS is not performing vacancy surveys involving monitoring of the service territory by field personnel and enforcing vigilant data integrity standards into CC&B, poor customer account management may compromise the results of a water audit and have a significant impact on revenue generation and recovery.

ORS Witness Hipp testified that the continued problems associated with CWS billing demonstrates that CWS internal billing processes and CC&B have not stabilized.

### **(3) Decision of the Commission**

At hearing CWS Witness Lisa Sparrow, President and CEO, acknowledged continued billing problems in South Carolina that are not occurring in other states. She also acknowledged

modifications were made to CC&B after purchase; but no modifications were made to address the manual billing issues associated with CWS water distribution and wastewater collection customers. CWS Witness Lubertozzi acknowledged that water distribution and wastewater collection systems existed in South Carolina prior to Project Phoenix. Pro-rata billing was permitted by Commission Order No. 94-484.

CWS Witness Sasic acknowledged that there has been multiple billing problems but asserts that the Company has addressed them and that they are not related to CC&B.

As discussed in Finding of Fact 15, we received testimony from customers about the billing problems they encountered.

Based on the testimony of ORS Witness Hipp and the extensive customer testimony, we find that a portion of CC&B shall not be included in rate base for the purposes of this proceeding. We decline to require ratepayers to fund all of CC&B at this time given the billing problems experienced by CWS customers during the test year; therefore, we adopt ORS's adjustment of (\$397,643). However, we encourage CWS to address the billing problems, and we will consider CWS recovery of the balance of CC&B in the next rate proceeding if billing performance has improved.

**(G) Adjustment 11 (Regulatory Commission Expense):**

**(1) Position of CWS**

CWS Witness Lubertozzi seeks to include additional rate case expenses. He contends that ORS's adjustment does not include all of the costs through July 2011. He estimates that CWS will incur a total of \$406,351.85 and requests a three year amortization. He testifies that CWS will provide ORS with the necessary documentation of these expenses at or near the time of the hearing, September 7, 2011.

**(2) Position of ORS**

ORS Witness Scott states in her surrebuttal testimony that ORS verified \$177,054 in rate case expenses as of July 2011, and she proposes to use a three year amortization period. In her surrebuttal testimony dated August 31, 2011, she states the Company has not provided any additional information, and therefore, ORS did not include any additional rate case expenses.

At the conclusion of the hearing on September 8, 2011, counsel for CWS asked the Commission to allow it to include additional rate case expenses through the date of the hearing. The Commission requested ORS to review the additional rate case expenses and to make a recommendation as to whether they should be included. On September 21, 2011, ORS received 476 pages of documents, correspondence and invoices totaling \$415,924.46. A review of these documents by ORS revealed that a substantial amount of these additional rate case expenses are unrelated to this rate case or to CWS. (See, ORS Letter to the Commission dated September 23, 2011) As a result, ORS does not recommend including any additional rate case expenses.

**(3) Decision of the Commission**

Notwithstanding the testimony provided by CWS Witness Lubertoizzi that additional rate case expenses would be produced for review and inclusion in this proceeding on September 7, 2011, we provided the Company the opportunity to submit to ORS for audit and examination additional rate case expenses. We requested ORS to review and report back to this Commission its findings.

On September 23, 2011, ORS reported that on September 21, 2011, it received 476 pages of invoices, bills, correspondence and other documents that total \$415,924.46 and that many of them are unrelated to this proceeding. We find that the Company had ample opportunity to

present the additional rate case expenses to this Commission and ORS, and in failing to do so, we decline to adopt further adjustments for rate case expenses.

CWS and ORS both proposed amortization periods of three years. The Commission finds that an amortization period of three years is an appropriate time to recover the rate case expenses. The record supports a three-year amortization period as reflected in the testimonies of CWS Witness Lubertozzi and ORS Witness Scott.

Therefore the Commission approves rate case expenses of \$177,054 and sets a three-year amortization period for the recovery of those expenses. The result is an adjustment to the test year of \$59,018 for rate case expenses related to the instant case.

**(H) Summary of Adopted Adjustments to Expenses:**

The total effect of the adjustments to test year expenses adopted herein increase total operating expenses by \$95,152. Thus, operating expenses for CWS for the test year under present rates and after accounting and pro forma adjustments and adjustments for known and measurable out-of-test-year occurrences are \$6,433,719. Table C below reflects the operating expenses after accounting, pro forma adjustments, known and measurable out-of-test year occurrences adjusted to reflect the approved revenue increase.



TABLE C

	ORS		As		
<b>Operating Expenses</b>	<b>Surrebuttal</b>	<b>Change<sup>10</sup></b>	<b>Adj.</b>	<b>Increase</b>	<b>Total</b>
Maintenance Expenses	2,946,508	-	2,946,508	-	2,946,508
General Expenses	1,608,963	-	1,608,963	-	1,608,963
Interest on Customer Deposits	1,277	-	1,277	-	1,277
Depreciation	963,581	-	963,581	-	963,581
Amortization of CIAC	(336,945)	-	(336,945)	-	(336,945)
Taxes Other Than Income	795,447	15,545	810,992	4,766	815,758
Income Taxes - State & Federal	459,683	(1,626)	458,057	189,859	647,916
Amortization of Investment Tax Credit	(8,852)	-	(8,852)	-	(8,852)
Amortization of Plant Acquisition Adjustment	(9,862)	-	(9,862)	-	(9,862)
	<u>6,419,800</u>	<u>13,919</u>	<u>6,433,719</u>	<u>194,625</u>	<u>6,628,344</u>

# 11. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

A customer growth adjustment using the method of calculating customer growth as proposed by ORS is included in computing the income requirement of CWS. Neither the HOA nor Midlands presented testimony regarding a customer growth adjustment.

## (1) Position of CWS

CWS did not propose a customer growth adjustment in its Application.

## (2) Position of ORS

The projected growth for CWS for water and wastewater service is 1.004%.

## (3) Decision of the Commission

CWS did not oppose ORS's proposed customer growth adjustment. The Commission adopts the customer growth computation recommended by ORS.

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<sup>10</sup> This column represents changes as a result of Company testimony.

12. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

The income requirement for CWS, using the return on rate base of 7.80% found appropriate in this Order and the adjusted rate base of \$23,611,206, is \$1,840,758 as shown on the Table below:

TABLE D

Operating Revenues	\$8,452,898
Operating Expenses	<u>6,628,344</u>
Net Operating Income	\$1,824,554
ADD: Customer Growth	<u>16,204</u>
Total Income for Return	<u>\$1,840,758</u>
Return on Rate Base	7.80%

13. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13

In order for the Company to have the opportunity to earn a return on rate base of 7.80% as approved in this Order, the Commission must increase revenues sufficient to achieve a Total Income for Return of \$1,840,758. In order for CWS to have the opportunity to earn its income requirement of \$1,840,758, CWS must be allowed additional revenues totaling \$501,133.

14. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 14

S.C. Code Ann. Seciton 58-5-240 (H) provides: “[t]he [C]ommission shall specify an allowable operating margin in all water and wastewater orders.” Based upon the rate of return on rate base approved in this Order and the revenues and expenses approved herein, the operating margin is calculated to be 12.57%.

TABLE E

Operating Revenues	\$8,452,898
Operating Expenses	<u>6,628,344</u>
Net Operating Income	\$1,824,554
ADD: Customer Growth	<u>16,204</u>
Total Income for Return	<u>\$1,840,758</u>
Operating Margin	12.57%

15. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

The Commission received the testimony of approximately fifty-six (56) CWS customers as part of this proceeding. Hearing Exhibit 1 of the Lexington night hearing is a compilation of over 223 complaints/protestant letters received by the Commission through the date of the Lexington night hearing. Generally, the complaints centered on customer service, billing and quality of service.

**(1) Position of CWS**

The Company acknowledged that during the test year the Company did not provide timely and accurate bills to water distribution and wastewater collection customers. CWS Witness Sasic contended that the problems were due to a breakdown of internal billing processes, the failure of certain personnel to manage the manual billing process, delays in billing from bulk providers, and mail vendor issues. (T. Vol. 5, 1062-1070) CWS Witnesses Lubertozzi and Sasic, however, deny that CC&B has a design flaw. They contend that CC&B performed as intended and was beneficial to CWS customers during the test year.

According to CWS Witness Sasic, the Company has been proactive in resolving customer service and billing problems. She testified that the Company has made personnel changes, updated its internal billing processes, instituted a review process for billing, developed and

implemented their own Key Performance Indicators (KPI's)<sup>11</sup>, and reformed and consolidated its customer service organization. (T. Vol. 5, 1062-1070)

**(2) Position of ORS**

The billing problems started in 2008 and have not been resolved. From 2008 to present, ORS has worked with customers and CWS to resolve individual complaints. ORS prepared a Report dated July 30, 2009 for Courtside Commons which sets out the billing issues, that still exist, and ORS's recommendations. Regardless of whether the delays and problems in billing are the result of design flaws and poor implementation of CC&B as suggested by ORS, or due to third party providers (bulk water or sewer providers), mail service vendors, or the U.S. Postal Service, the Commission should require improved performance from the Company prior to requiring CWS customers to pay the costs associated with CC&B to allow the Company to earn a return on CC&B. Consistent with Order Nos. 84-142 and 87-682, ORS recommends that the Commission withhold rate base treatment in this case for that portion of CC&B associated with water distribution and sewer collection systems. In the next rate case, if the Company has provided evidence that billing has improved and stabilized, then the Commission may reconsider allowing the remainder of CC&B into rate base.

**(3) Customer Testimony**

**CUSTOMER SERVICE**

Several customers expressed frustration with being unable to reach CWS's customer service representatives and having no local office within South Carolina to direct their complaints. Witness Mark Lynn testified at the Lexington night hearing that the Company has no

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<sup>11</sup> KPIs are measures developed by CWS; KPIs are not the measures set forth in Sasic Direct Exhibit 1 entitled Performance Metrics (T. Vol. 5, Hearing Exhibit 36).

local presence in South Carolina; bill payments are made to an address in Maine; and customer service representatives answer the phone in Altamonte Springs, Florida (Lynn, T. Vol.1, 59, ll. 6-23) Ms. Edwards, at the Lake Wylie night hearing, testified that her calls were not returned, and she was disconnected when she placed calls to customer service. (Edwards, T. Vol. 2, 178)

### **BILLING**

“....it is almost as bad as the State computer, that SCEIS system.” (Senator Knotts, T. Vol. 1, 13, ll. 17-25) Whether you blame the billing problems on the computer system or company personnel, these problems need to be corrected prior to providing rate increases. (Sen. Knotts, T. Vol. 1, 14, ll. 2-7)

Sen. Knotts explained that in 2009, he hosted two meetings with CWS customers, the Company and ORS. (Sen. Knotts, T. Vol. 1, Exhibit 8, p. 19-35).<sup>12</sup> One meeting was held October 6, 2009, during the test year, to address customer billing complaints. (T. Vol. 1, Exhibit 8, p. 36) While the Company blames the problems on the new computer system, Sen. Knotts pointed out that enough time has passed to work out any “kinks.” (Sen. Knotts, T. Vol. 1, 9-11; 103, ll. 6-15)

CWS Customers Tim Anderson, William Brown, Leland Sullivan, Donna Forest, Julia Hess, Kimberly Stammire, and Kecia Harley, testified regarding the billing problems that they have experienced. Tim Anderson, a high school teacher, referred to his billing as “sporadic” as he received a bill for \$150.00, then no bill, and then he received a statement reflecting he owed \$0, and then he received a bill for \$100.00 along with a shut-off notice. (Anderson, T. Vol. 1, 64,

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<sup>12</sup> Exhibit 8 of the Lexington Night Hearing Transcript at pages 19-35 contains the ORS report dated July 30, 2009, of the billing and service issues for Courtside Commons. This report and examination was performed at the request of Sen. Knotts. In its Report at pages 27-28 of Exhibit 8, ORS found that CWS has numerous problems associated with its billing and provided recommendations to CWS. ORS also found that customers were overbilled and incorrectly billed the water supply charge (or “pro-rata charge”).

ll. 10-25; 65)<sup>13</sup> Mr. Brown testified that the billing problems are not billing problems but are management problems. A problem that is ongoing and repetitive is a management problem. (Brown, T. Vol. 1, 77) Mr. Sullivan testified that he had recently received two bills for the same service period of April 27 to May 27, 2011, which is a waste. The billing system is not working correctly which increases costs; he went on to describe how billing “skipped” a month and then he would receive two months billing, and this happened repeatedly. (Sullivan, T. Vol. 1, 80, ll. 16-24; 81 and Hearing Exhibit 6) Mr. Sullivan explained there are delays between the dates of service and when he receives the bill such that he cannot check against his meter and he wouldn’t know what he used during that time period. (Sullivan, T. Vol. 1, 84)

Donna Forest testified that although she uses automatic billing, she was sent a shut-off notice meaning that her service would be terminated for non-payment. (Forest, T. Vol. 1, 89, ll. 12-22).

Julia Hess resides at 111 Marianne Court; she testified that her bills range from \$65.00 to \$200.00. For a period of six months, her bills were posted to the wrong account. She received late fees but paid them rather than “duke it out over a few dollars.” She provided her bills, correspondence from the Company, correspondence with ORS, several marketing materials from Utilities, Inc., and HomeServe, the ORS Report of July 30, 2009 for Courtside Commons, and other documentation which the Commission accepted as Hearing Exhibit 8. (Hess, T. Vol. 1, 96-100)

Ms. Hess provided substantial documentation supporting her testimony. A bill dated 05/13/2009 to 111 Marianne Court but referencing another customer is provided at Page 16 of

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<sup>13</sup> Mr. Anderson noted that he does receive the warranty advertisement jointly marketed by Utilities, Inc., and HomeServe each month. (Anderson, Lexington Night Hearing, T. 65)

Exhibit 8. Pages 56-58 of Exhibit 8 reflect that Ms. Hess has had to repeatedly request reimbursement for overbilled amounts. Most instructive, correspondence from Carolina Water Service to Ms. Hess dated January 28, 2010 provides as follows:

*Since the transition to our new Customer Care and Billing System (CC&B) in mid-2008, some areas have experienced a delay in receiving a monthly bill.* In addition, due to issues related to the timely receipt of the bulk provider invoice, your current bill may reflect a service period which may have occurred several months earlier. In order to "catch-up" the billing and bring the service period as close to the current bill date as we can, your upcoming monthly bill in February will reflect a 2-month billing.

As you may be aware, the water service provided to your residence by Carolina Water Service, Inc. is purchased through a bulk provider and the costs passed through to you, without mark-up, on a "pro-rata" basis. The rate for this pass-through amount fluctuates each month and is based upon the total amount of bulk water purchased from the provider divided proportionately among the customers in the service area and based on your actual consumption during that same service period.

(Emphasis added, T. Vol. 1, Exhibit 8 page 45)

Kimberly Stammire testified that although she did not receive a bill, she was disconnected for nonpayment. She also described her billing as "sporadic." (Stammire, T. Vol. 1, 104-109)

Kecia Harley, a CWS customer residing at 113 Sweet Springs Court, provided greater detail when she described her experiences with the Company estimating rather than reading her meter. She complained that she is not billed on a regular thirty (30) day cycle; instead she has been billed for as much as forty-three (43) or as little as sixteen (16) days. (Harley, T. Vol. 1, 129-134; 132)

At the Lake Wylie night hearing CWS customers, Pam Horack and Don Long, testified regarding the billing errors they discovered. After reviewing her bills and making two phone calls to the Company, she learned that she was overbilled the base water charge, which is a flat

monthly amount, because the Company had not read the meter but pro-rated the monthly charge. (Horack, T. Vol 2, 214; 218-219; Hearing Exhibit 14) Mr. Long expended significant time and resources reviewing bills from May of 2008 to present. He found that the May 2008 bill correctly reflected a York County water supply charge of \$3.26 per thousand gallons and a \$.15 York County water base charge. When CWS implemented its new billing system in June of 2008, the June 2008 bill mistakenly added the \$.15 base charge to the \$3.26 supply charge and calculated the supply charge as \$3.41 per thousand gallons. Thus, \$.15 was charged once per each thousand gallons rather than once per month, as it should have been. Importantly, the \$3.41 per thousand was not detailed on the bill.

He found that in July of 2008, the supply charge was detailed on the bill as \$3.41 per gallon, rather than the correct and authorized charge of \$3.26. In October of 2008, the supply charge was detailed a little more, but it was still incorrect, because the correct supply charge was still \$3.26 per thousand, plus \$.15. This error continued for 24 months, until October of 2010. In November of 2010, the detailed description of the supply charge was removed, and the calculation was corrected to reflect the proper charge of \$3.26 per thousand gallons, plus the fixed \$.15. But the total was still carried as a single item on the bill. This continued until May of 2011, when the \$3.26 per thousand gallons was detailed and the supply charge separated from the \$.15 base charge as it had been 31 months earlier, on the old billing form. He further testified that:

No refund was provided for the overcharge, nor was any error admitted. ... Clearly the error was known, but not acknowledged. It was known at least seven months before it was finally fixed, and even then no refund was provided and no acknowledgment was provided. In fact, the way in which the correction was made appears to have been designed to cover over the fact that a mistake had ever occurred. I asked an attorney friend of mine if there was a legal term for this. He simply said, "Stealing."



(Long, T. Vol. 2, 242-244; Hearing Exhibit 16)

Roger Schwartz testified that for almost a year and a half, eighteen (18) months, he attempted to resolve a billing complaint with the Company. After involving ORS, a billing error of 60,000 gallons of usage for an empty space was determined. He contended that the Company went eighteen (18) months using estimated billing. (Schwartz, T. Vol. 2, 292-293; 294-300)

Miriam Berry testified before the Commission on September 7, 2011 in Columbia. She testified that the two month delay in billing resulted in her failing to catch a leak for a long period of time. She acknowledged that it is not the Company's fault she had a leak, but she would have caught the leak earlier if the Company's billing was not so far behind. (Berry, T. Vol.3, 319-321)

**(4) Determination of the Commission**

Based on the testimony of CWS customers and ORS Witness Hipp, it is apparent that during the test year the Company failed to render bills on a timely and accurate basis and in some cases disconnected customers for nonpayment when the customer did not receive a bill. Furthermore, the Company's customer service, billing and quality of service are poor and require improvement.

To address these problems, we adopt the following measures: (i) the Company shall put into effect the Performance Metrics contained in Sasic Exhibit 1 within thirty (30) days of this Order; (ii) the water distribution and sewer collection customers shall be billed at the same rate the third party provider charges CWS for service (multiplied by the customer usage at the meter for water distribution customers) and any difference between what CWS bills its customers and the third-party provider bills CWS shall be placed into a deferred account as discussed in Finding

of Fact 17; and (iii) the Company shall file a report with this Commission within thirty (30) days after the date of the issuance of this Order detailing why it should not be required to maintain an office within South Carolina for customer service.

#### 16. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16

CWS through the testimony of Witness Flynn commits to immediately begin to undertake a water audit of its systems, using the water audit methodology provided through AWWA and will begin with the I-20 system, which has the highest percentage of non-revenue water. On a calendar basis, CWS will conduct a water audit of each of the purchased water systems using the AWWA water audit methodology.

##### **(1) Position of CWS**

CWS proposed that the results of the water audit will be used to identify if any system's non-revenue water is higher than 15% and to develop a prudent, cost-effective plan to address excess non-revenue water.

##### **(2) Position of ORS**

ORS Witness Hipp also recommends that the Company complete an AWWA compliant water audit.

##### **(3) Determination of the Commission**

We find that the Company's commitment to conduct a water audit is commendable, and we establish a deadline for completion of twelve months from the date of this Order. Upon completion of the water audit, the Company shall propose to the Commission for its review and consideration in a separately noticed proceeding what percentage of non-revenue water the Company should be allowed (i.e. a purchased water adjustment) to bill its customers on a going forward basis. The water supply charges plus an added percentage for non-revenue water will

ensure the Company appropriately recoups its costs and is proactively minimizing the affect of water loss on its water systems and customers. Once established, we shall annually review and establish the purchased water adjustment percentage.

**17. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 17**

CWS'S current rate schedule provides CWS the ability to pass through charges from third party providers on a pro-rata basis. CWS Witness Sparrow, President and CEO, acknowledged that the pro-rata billing is a problem for CWS customers. (T. Vol. 3, 637-638).

**(1) Position of CWS**

CWS Witnesses Lubertozzi and Flynn recommend that CWS be permitted to charge all affected customers, except those located in River Hills service territory, 115% of the effective third-party provider price per thousand gallons and that the amount of \$64,010 be included as a cost of service. The \$64,010 represents the amount CWS Witness Lubertozzi determined would not be recovered if the Commission were to adopt the Company's recommendation. Witness Flynn recommends that the 115% would be reviewed annually by ORS, and any proposed changes would be subject to Commission review. CWS Witness Flynn testified that adopting this process will obviate the need to manually post the pro-rata share of the bill and will minimize the potential for billing errors or confusion. CWS Witness Flynn asserted that this Commission issued an order approving a 15% allowance for non-accounted water use in Order No. 92-537. (T. Vol. 5, 963, ll. 7-14)

**(2) Position of ORS**

ORS Witness Hipp recommended the current rate schedule language included in the CWS Application Exhibit A page 2 ¶ 1 and page 6 ¶ 1 be revised to eliminate the words "...on a

pro-rata basis..”. If the Commission were to adopt the ORS recommended change the water rate schedule language would read:

The Utility will also charge for the cost of water purchased from the government body or agency, or other entity. The charges imposed or charged by the government body or agency, or other entity providing the water supply will be charged to the Utility’s affected customers without markup. Where the Utility is required by regulatory authority with jurisdiction over the Utility to interconnect to the water supply system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will also be charged to the Utility’s affected customers without markup.

If the Commission were to adopt the ORS recommended change, the sewer rate schedule language would read:

The Utility will also charge for treatment services provided by the government body or agency, or other entity. The charges imposed or charged by the government body or agency, or other entity providing treatment will be charged to the Utility’s affected customers without markup. Where the Utility is required by the terms of a 201/208 Plan, or by other regulatory authority with jurisdiction over the Utility to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will also be charged to the Utility’s affected customers without markup.

Under this proposal, the rate for service (i.e. per 1,000 gallons or per cubic foot) charged by the third-party water supply or wastewater treatment provider will become the same rate charged by CWS to its customers. ORS Witness Hipp provided the following example: if the City of West Columbia charges CWS a water supply rate of \$3.00/1,000 gallons, a water distribution customer in the Courtside Commons subdivision of Lexington County would be billed by CWS at the same rate of \$3.00/1,000 gallons of water for the pass through component

of the CWS monthly service invoice.<sup>14</sup>

In response to the Company's proposal, ORS Witness Hipp recommended that if the Commission were inclined to adopt CWS's methodology, she recommended that the Commission use a percentage of 10% which is more in line with that used by the South Carolina Department of Health and Environmental Control ("SC DHEC"). (T. Vol. 5, Hearing Exhibit 33, AWWA State Survey page 13) She also recommended that the Commission not include \$64,010 in cost of service.

The Company submitted late-filed Exhibit 34 on October 5, 2011, producing a Memorandum dated November 22, 1996, which references "115%." Order Numbers 92-537 and 96-714 pre-date the Memorandum. ORS respectfully submits that this Commission has not approved a 15% allowance for non-accounted water.

### **(3) Customer Testimony**

Mr. Trent Muldrow testified in support of ORS's suggestion that the Commission remove "pro-rata" billing from CWS's tariff. Currently, 100 percent of the water costs from the bulk water provider, the City of West Columbia, are passed on to Carolina Water Service's I-20 customers in the form of a water supply charge. He went on to state that:

We pay for water that is used for system flushing, we pay for water that is leaked, and we even pay for water that is being stolen. This is unfair. Standard water customers of Carolina Water Service are not billed for water that does not pass through their own individual meters and neither should distribution-only customers. It is my belief that when the pass through mechanism was originally introduced by the Commission that the intent was that water and sewer companies would simply charge their customers the same rate they are paying from the bulk

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<sup>14</sup> Several customers testified they should only be billed for the amount of usage recorded by their meter. (Sullivan, T. Vol. 1, 85-86)

providers. Carolina Water Service has managed to work this to their advantage so that they do not have to pay for a drop of water, whether it is revenue-generating or not. The current system also does not create any incentive for Carolina Water Service to locate and repair leaks or audit for theft. (T. Vol. 3, 341-344)

**(4) Determination of the Commission**

We find based on the evidence in the record that the current tariff language regarding the “pro-rata” billing for water distribution and/or sewer collection service has resulted in continued billing problems for CWS customers. As such, the Company shall be permitted to bill at the same rate the third-party provider charges CWS for service (multiplied by the customer’s usage at the meter for water distribution customers). The Company shall place any amount of the difference between what CWS bills its customers and the third-party provider bills CWS into a deferred account. We will determine during the next rate case whether to allow the Company to recoup the deferred amounts. We decline to adopt a percentage to be added for non-revenue water in this proceeding as no notice was provided to customers, but as set forth in Finding of Fact No. 16, a separate proceeding to establish a percentage will be initiated. Additionally, we require customer notice and approval by this Commission prior to the Company implementing an increase in its pass-through as reflected in Appendix A.

**18. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 18**

CWS and ORS offered proposals to quantify non-revenue water that is being lost from CWS’s respective water systems and charged to the ratepayers from flushing events.

**(1) Position of CWS**

The primary purpose of a blow-off or flushing valve is to provide CWS with the means to maximize the velocity of the water moving through the water mains in order to scour minerals or sediment from the water main during each flush event. CWS calculates flushing volume by

multiplying the flow rate in gallons per minute time the number of minutes of flushing activity. The example provided by CWS assumes the flow rate to be 250 gallons per minute at a nominal pressure of 60 psi. For smaller blow-off valves, a lower flow rate is used. The information is entered into a monthly flushing log for use in completing a water audit of the system.

**(2) Position of ORS**

ORS recommends that either CWS use meters on all release points (i.e., blow-off and/or flushing locations, etc.) or demonstrate it can properly quantify and document its water consumption for flushing. Mr. Morgan responded in his surrebuttal testimony to CWS's method for measuring water used during flushing events that the pressure in each of CWS's water systems vary by location on the system, time of day, and other factors. The variation in pressure on CWS's water systems was identified by several protestants at the night hearings held by this Commission. Mr. Morgan went on to state that the change in pressure can alter the results of CWS's methodology for calculating the amount of water used during each flushing event.

**(3) Determination of the Commission**

We find that the methodology described by CWS for measuring the volume of water used during each flushing event to be acceptable. However, due to the variation of the pressure in the water system at the time of each flushing event and its affect on the results in using this method, we require CWS obtain the water pressure in the system at or near each flushing point when flushing its system. The pressure readings can be taken during, immediately before, or immediately after the flushing event. CWS may reduce the pressure reading event for a particular location to once per year by demonstrating in its records that the water pressure in the system has not fluctuated (all readings are within 3%) over a two year period.

19. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 19

Midlands and CWS provided a Settlement Agreement at the start of the hearing on September 7, 2011. The Settlement Agreement provides as follows:

That any increase in the contract bulk sewer treatment service rate charged Midlands by Carolina Water for bulk sewer treatment service to Midland's customers in the Van Arsdale subdivision shall be identical to the percentage increase which may be allowed for single family equivalent sewer treatment rate in this docket;  
(T. Vol. 3 & 4, Hearing Exhibit 25)

CWS in its application noticed an increase of \$18.78 per single family equivalent (SFE); currently, Midlands pays \$16.53 as approved in Docket No. 2006-92-WS. (Application, Exhibit A; T. Vol. 3&4, Hearing Exhibit 25)

**(1) Position of CWS**

CWS along with Midlands requests Commission approval of the proposed Settlement Agreement.

**(2) Position of Midlands**

Mr. Keith G. Parnell, president of Midlands Utility, Incorporated and Development Service, Incorporated, testified in support of the Settlement Agreement. Midlands provides sewer service for residents in Lexington County, and also Fairfield and Orangeburg Counties in South Carolina. Mr. Parnell explained that CWS provides Midlands wholesale bulk wastewater treatment at their I-20 facility. Midlands has approximately 416 customers in the Van Arsdale area. Pursuant to the Settlement Agreement, Midlands would receive the same percentage increase if approved by the Commission that is applied to a single family equivalent sewer treatment rate.



**(3) Position of HOA**

The HOA indicated that it had no objection to the Settlement Agreement. (T. Vol. 3, 452, ll. 23-25; 453, ll. 1-3)

**(4) Position of ORS**

ORS raised the issue of cross-subsidization in ORS Witness Hipp's direct testimony (T. Vol. 5, 1284) ORS Witness Hipp noted that the rate proposed by CWS for its wholesale sewer service to Midlands is approximately 13.6% higher than the current rate for Midlands. While this percentage is in line with the increase proposed for all similarly situated sewer customers, Midlands very low current sewer rate has create an unbalanced environment in which other customers are subsidizing the much lower sewer rate offered to this one wholesale customer. While this is occasioned by a prior settlement agreement approved by the Commission in Order No. 2008-855, ORS is concerned about the effect on other customers if an increase is approved in this proceeding. If the Commission approves a twenty percent (20%) increase and approves the proposed Settlement Agreement, the current subsidization will only widen as the other customers provided service by CWS are charged a much higher sewer rate. For this reason, ORS would not agree to or support approval of the Settlement Agreement. ORS recommends that if an increase is approved, regardless of the percentage increase, that the Commission apply the noticed rate of \$18.78 per month per SFE to Midlands.

**(5) Decision of the Commission**

The Commission declines to approve the Settlement Agreement as the agreement would cause the current subsidy to be increased. The Commission is charged with fixing just and reasonable rates which are not discriminatory, and as such, the Commission adopts the rate of \$18.78 per month per SFE for wholesale service to Midlands to address the current subsidization.

#### **IV. CONCLUSIONS OF LAW**

Based upon the Findings of Fact as set forth herein and the record of the instant proceeding, the Commission makes the following Conclusions of Law:

1. Rate of return on rate base is the appropriate methodology in this case to fix just and reasonable rates for CWS.
2. A fair return on rate base for the operation of CWS in South Carolina is 7.80%. This rate of return is calculated using a capital structure of 50.11% long-term debt and 49.89% equity; a cost of debt of 6.58%; and a return on equity of 9.02%. Based on the record in this case, the resulting rate of return on rate base produces a fair and reasonable rate of return.
3. For the test year ending September 30, 2010, the appropriate operating revenues, as adjusted in this Order, are \$7,951,765, and the appropriate operating expenses, as adjusted in this Order, are \$6,433,719.
4. Using the adjusted rate base in this Order of \$23,611,206 and the return on rate base of 7.80%, the income requirement for CWS is \$1,840,758.
5. In order for CWS to have an opportunity to earn the return on rate base found reasonable and approved in this Order and to meet the income requirement, CWS is allowed additional revenues of \$501,133.
6. The rates approved in this Order are designed to be just and reasonable without undue discrimination and are also designed to meet the revenue requirement of the Company.
7. Based on the adjustments and the increase in rates approved in this Order, the appropriate operating margin for CWS for its South Carolina operations is 12.57%.

IT IS THEREFORE ORDERED THAT:

1. CWS shall be entitled to charge rates and fees as contained in Appendix A to obtain a Rate of Return of 7.80% for combined operations and in order to obtain an operating margin of 12.57%.
2. The Company shall continue to maintain current performance bonds in the amounts of \$350,000 water operations and \$350,000 for wastewater operations pursuant to S.C. Code Ann. § 58-5-720 (Supp. 2010).
3. The rates and schedules in Appendix A attached hereto are hereby adopted by the Commission. The Company is to provide thirty (30) days' advance notice of the increase to customers of its water services prior to the rates and schedules being put into effect for service rendered. The schedules shall be deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (Supp. 2010).
4. The Company's books and records shall be maintained according to the NARUC Uniform System of Accounts. The Company is directed to make any necessary adjustments to its accounting system to conform to the NARUC Uniform System of Accounts.
5. The Company shall file a report with the Commission with a copy to the parties within thirty (30) days after the date of the issuance of this Order detailing why it should not be required to maintain an office within South Carolina for customer service.
6. The Company shall file a written report with the Commission and provide a copy to ORS three months from the date of this order detailing the interest due on deposits and the Company's plan to refund those monies.

7. The Company shall complete a water audit consistent with AWWA standards within twelve months from the date of this Order and report the results to this Commission and ORS.
8. In a separately noticed proceeding, the Company shall file a proposed percentage for non-revenue water and methodology for billing third party provider charges pending completion of a water audit.
9. The Company shall bill at the same rate the third-party provider charges CWS for water and sewer service (multiplied by the customer's usage at the meter for water distribution customers). The Company shall place any amount of the difference between what CWS bills its customers and the third-party provider bills CWS into a deferred account. The Commission will determine during the next rate case whether to allow the Company to recoup the deferred amounts.
10. The methodology used by CWS for measuring the volume of water used during each flushing event is adopted but we require CWS obtain the water pressure reading.
11. The Company shall charge the rate of \$18.78 per month per SFE for wholesale service to Midlands.

BY ORDER OF THE COMMISSION:

\_\_\_\_\_  
John E. Howard, Chairman

ATTEST:

\_\_\_\_\_  
David Wright, Vice-Chairman

## APPENDIX A

### CAROLINA WATER SERVICE, INC.

FILED PURSUANT TO DOCKET NO. 2011-47-WS – ORDER NO. 2011-\_\_\_\_\_

EFFECTIVE DATE: OCTOBER \_\_\_\_\_, 2011

### SCHEDULE OF RATES AND CHARGES

#### WATER

#### 1. Monthly Charges

##### Residential

Base Facilities Charge per single family house, condominium, mobile home or apartment unit:

\$12.16 per unit

Commodity charge:

\$3.89 per 1,000 gallons or 134 cft

##### Commercial

Base Facilities Charge  
by meter size:

5/8" meter	\$12.16
1"	\$31.81
1.5"	\$63.63
2"	\$101.80
3"	\$190.89
4"	\$318.14

Commodity Charge

\$3.89 per 1,000 gallons or 134 cft

Charges for Water Distribution Only

Where water is purchased from a government body or agency or other entity for distribution and resale by the Company, the following rates apply:

Residential

Base Facilities Charge per single family house, condominium, mobile home or apartment unit:	\$12.16 per unit
Commodity charge:	\$2.23 per 1,000 gallons or 134 cft

Commercial

Base Facilities Charge by meter size:		
	5/8" meter	\$12.16
	1"	\$31.81
	1.5"	\$63.63
	2"	\$101.80
	3"	\$190.89
	4"	\$318.14
Commodity charge:		\$2.23 per 1,000 gallons or 134 cft

The Utility will also charge for the cost of water purchased from the government body or agency, or other entity. The charges imposed or charged by the government body or agency, or other entity providing the water supply will be charged to the Utility's affected customers without markup. Where the Utility is required by regulatory authority with jurisdiction over the Utility to interconnect to the water supply system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will also be charged to the Utility's affected customers on a pro rata basis, without markup. The Utility shall give the Commission thirty days notice of its intent to pass-through to customers purchased water charges which are higher than those in effect at the time of the Commission's approval of the within rate schedule. The Utility shall provide with such notice written documentation of an increase by the provider of purchased water justifying the increase in the amount of purchased water charges sought to be passed-through to affected customers. CWS is required to give customers a thirty days notice before the increase in the purchased water charges may be put into effect.

Commercial customers are those not included in the residential category above and include, but are not limited to hotels, stores, restaurants, offices, industry, etc.

The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units (or in such other circumstances as the law may allow from time to time), which is served by a master water meter or a single water connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average and the result multiplied by the number of units served by a single meter.

2. Nonrecurring Charges

A. Water Service Connection (New connections only) \$300 per SFE\*

B. Plant Impact Fee (New connections only) \$400 per SFE\*  
The Plant Capacity Fee reflects the portion of plant capacity which will be used to provide service to the new customers as authorized by Commission Rule R. 103-702.13. Plant capacity shall be computed by using the South Carolina DHEC "Guide Lines for Unit Contributory Loadings to Wastewater Treatment Facilities" (1972) to determine the single family equivalency rating. The plant capacity fee represents the Utility's investment previously made (or planned to be made) in constructing water production, treatment and/or distribution facilities that are essential to provide adequate water service to the new customer's property.

C. Water Meter

5/8 inches x 3/4 inches meter \$100 when installed by the Utility

3. Account Set-Up and Reconnection Charges

A. Customer Account Charge - for new customers only.  
All Areas \$30.00

B. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of thirty five dollars (\$35.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in

Commission Rule R.103-732.5. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected. The reconnection fee shall also be due prior to reconnection if water service has been disconnected at the request of the customer.

4. Billing Cycle

Recurring charges will be billed monthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service, unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.

6. Cross Connection Inspection Fee

Any customer installing, permitting to be installed, or maintaining any cross connection between the Utility's water system and any other non-public water system, sewer or a line from any container of liquids or other substances, must install an approved back-flow prevention device in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.2, as may be amended from time to time. Such a customer shall annually have such cross connection inspected by a licensed certified tester and provide to Utility a copy of a written inspection report and testing results submitted by the certified tester in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.8, as may be amended from time to time. Said report and results must be provided by the customer to the Utility no later than June 30<sup>th</sup> of each year. Should a customer subject to these requirements fail to timely provide such report and results, Utility may arrange for inspection and testing by a licensed



certified tester and add the charges incurred by the Utility in that regard to the customer's next bill.

\* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities -- 25 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.

SEWER

1. Monthly Charges

Residential - charge per single-family  
house, condominium, villa,  
or apartment unit: \$40.56 per unit

Mobile Homes: \$28.88 per unit

Commercial: \$40.56 per SFE\*

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

Charge for Sewer Collection Only

When sewage is collected by the Utility and transferred to a government body or agency, or other entity, for treatment, the Utility's rates are as follows:

Residential – per single-family house,  
condominium, or apartment unit \$26.73 per unit

Commercial – per single-family  
equivalent \$26.73 per SFE\*

Charge for Wholesale Service (Midlands Utility) \$18.78 per SFE\*

The Utility will also charge for treatment services provided by the government body or agency, or other entity. The rates imposed or charged by the government body or agency, or other, entity providing treatment will be charged to the Utility's affected customers without markup. Where the Utility is required under the terms of a 201/208 Plan, or by other regulatory authority with jurisdiction over the Utility, to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rata basis, without markup. The Utility shall give the Commission thirty days notice of its intent to pass-through to customers purchased water charges which are higher than those in effect at the time of the Commission's approval of the within rate schedule. The Utility shall provide with such notice written documentation of an increase by the provider of purchased

water justifying the increase in the amount of purchased water charges sought to be passed-through to affected customers. CWS is required to give customers a thirty days notice before the increase in the purchased water charges may be put into effect.

The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units (or in such other circumstances as the law may allow from time to time), which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

Solids Interceptor Tanks

For all customers receiving sewage collection service through an approved solids interceptor tank, the following additional charges shall apply:

A. Pumping Charges

At such time as the Utility determines through its inspection that excessive solids have accumulated in the interceptor tank, the Utility will arrange for the pumping tank and will include \$150.00 as a separate item in the next regular billing to the customer.

B. Pump Repair or Replacement Charge

If a separate pump is required to transport the customer's sewage from solids interceptor tank to the Utility's sewage collection system, the Utility will arrange to have this pump repaired or replaced as required and will include the cost of such repair or replacement as a separate item in the next regular billing to the customer and may be paid for over a one year period.

C. Visual Inspection Port

In order for a customer who uses a solids interceptor tank to receive sewage service from the Utility or to continue to receive such service, the customer shall install at the customer's expense a visual inspection port which will allow for observation of the contents of the solids interceptor tank and extraction of test samples therefrom. Failure to provide such a visual inspection port after timely notice of not less than thirty (30) days shall be just cause for interruption of service until a visual inspection port has been installed.

2. Nonrecurring Charges

A. Sewer Service Connection (New connections only) \$300 per SFE\*

B. Plant Capacity Fee (New connections only) \$400 per SFE\*

The Plant Capacity Fee shall be computed by using South Carolina DHEC “Guide Lines for Unit Contributory Loadings to Wastewater Treatment Facilities” (1972) to determine the single family equivalency rating. The plant capacity fee represents the Utility’s investment previously made (or planned to be made) in constructing treatment and/or collection system facilities that are essential to provide adequate treatment and disposal of the wastewater generated by the development of the new property.

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of non residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. Notification, Account Set-Up and Reconnection Charges

A. Notification Fee

A fee of fifteen (\$15.00) dollars shall be charged each customer to whom the Utility mails the notice as required by the Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.

B. Customer Account Charge - for new customers only.

All Areas \$30.00

A one-time fee to defray the costs of initiating service. This charge will be waived if the customer is also a water customer.

C. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of two hundred fifty (\$250.00) dollars shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. Where an elder valve has been previously installed, a reconnection charge of thirty-five dollars (\$35.00) shall be due.

Customers who ask to be reconnected within nine months of disconnected will be charged the monthly service charge for the service period they were disconnected.

4. Billing Cycle

Recurring charges will be billed monthly, in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Toxic and Pretreatment Effluent Guidelines

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Health Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR 403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

6. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer systems. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule and to comply with the guidelines and standards hereof, shall not be denied service, unless treatment capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving sewer system.

In no event will the Utility be required to construct additional wastewater treatment capacity to serve any customer or entity without an agreement acceptable to the Utility

first having been reached for the payment of all costs associated with adding wastewater treatment capacity to the affected sewer system.

\*A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loading for Domestic Wastewater Treatment Facilities --25 S.C. Code Ann. Regs. 61-67 Appendix A, as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.